

**DRAFT Private Enterprise and Competitiveness Expansion Project (PEACE)  
USAID Sri Lanka  
Economic Growth Office**

## **1. INTRODUCTION**

The United States Agency for International Development's (USAID) Mission in Sri Lanka intends to support an integrated conflict response strategy to address the escalating conflict in Sri Lanka. The program will utilize peace building, democracy and governance, as well as economic growth strategies to address the most deleterious symptoms of the increased violence. In the medium term, USAID will continue to support objectives that promote a resumption of the peace process to resolve Sri Lanka's long standing conflict.

## **2. BACKGROUND**

Building on the Mission's successful economic growth activities to date, PEACE seeks to address Sri Lanka's current economic growth issues through the lens of the deteriorating conflict environment in the country. While recognizing that the solution to Sri Lanka's conflict lies clearly in the political realm, USAID believes that economic growth programming can contribute to building social and economic security to help establish conditions conducive to a political solution.

Recent USAID assessments<sup>1</sup> conclude that inequitable distribution of economic development benefits have helped fuel the current conflict. To address these disparities and make a positive contribution to creating space for a political solution, the PEACE project will seek to expand economic activity in and around the conflicted areas in Sri Lanka's North and East, and in conflict-strategic areas on the border of the conflict, such as Moneragala district and North-Central Province.

Over the past fifteen years USAID/Sri Lanka has assisted in the development of the country's agribusiness and services sectors through three main initiatives: TIPS, AgEnt (FY1992-2000) and The Competitiveness Program (FY 2001-2006). Each of these programs resulted in several successes, laying the groundwork for increased competitiveness of Sri Lanka's private sector.

AgEnt was a collaborative effort between USAID and Oregon State University with the purpose of generating employment and income growth through the development and expansion of private agro-based enterprises. The program resulted in:

- Increased capacity and production of over 400 agriculture-based enterprises through a series of capacity building training programs focused on new

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<sup>1</sup> USAID/Sri Lanka: Economic Growth and Conflict Assessment, 2006

production technology, innovation, market development and business management.

- Stronger, more unified private agribusiness sector through the formation of the National Agribusiness Council, an organization comprised of 20 associations covering every sphere of agribusiness in the country.
- Introduction of over 300 new technologies, some of which include: protected (greenhouse) agro-production, vanilla production, and hybrid maize production
- Increased export sales by \$373 million/year through establishing 190 new markets for Sri Lankan commodities abroad
- Policy reform in trade and tariff fiscal policy, seed production and certification, importing new genetics for the livestock sector, and several other side policy issues

Building on these accomplishments, The Competitiveness Program (TCP) focused its efforts on eight main clusters: coir, rubber, gems and jewelry, ceramics, tourism, tea, spices and ICT. The project worked through Apex bodies made up of representatives from all sectors of the industry value chain. The accomplishments made in each cluster are outlined on the project's website <http://www.competitiveness.lk> ; some of the highlights include:

- Initiating the Moneragala Rubber Development Program which, it is estimated, will increase rubber production by \$70mn per annum
- Establishing the Model Rainforest Ecolodge through mobilizing US \$2 million in private funds to construct the Ecolodge.<sup>2</sup>
- Enabling the ceramics industry to negotiate energy cost discounts for bulk energy usage with Shell Gas leading to a savings of \$500K per annum
- Developing a local color separator to upgrade the quality of Tea supplied to tea auctions
- Branding Ceylon Sapphire and mobilizing an investment of \$1.35 M to establish the Ceylon Sapphire Council
- Establishing a model Coir Research & Development Centre
- Promoting exports of Cinnamon by separating HS codes with Cassia and developing market linkages with U.S. and Mexican buyers
- Launching a Rapid IT Conversion Program

Through PEACE the Mission envisions building on its long experience and comparative advantage gained by these two programs by continuing our economic growth focus on private sector competitiveness, workforce development, economic revitalization via microenterprise, Global Development Alliances, and financial sector services such as credit guarantees utilizing USAID's Development Credit Authority.

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<sup>2</sup> This has since been spun off into its own project called the Alliance to Support Environment and Community through Ecotourism (SENCE)

To promote peace and equitable economic growth, USAID/Sri Lanka will pursue an approach that includes: (1) reaching out to less developed regions; (2) building linkages between the center and the periphery to open lines of constructive communication and build economic ties between private sector actors; and (3) improving the competitiveness of economic sectors while ensuring benefits to groups in conflict-affected and –strategic areas which have been traditionally neglected. Addressing inequities has political implications and will require sensitivity to the tangible and intangible sources of conflict.

The policy environment in Sri Lanka plays a key role in constraining the prospects for economic growth in the north and eastern regions of the country, due to lagged reform in the key economic sectors (primarily agriculture) of those regions. The limited scope of market reform in key sectors, such as agriculture, has played a significant role in the sharp gaps in regional growth. Therefore, progress in reducing regional disparities will be enhanced if misperceptions that reforms will hurt the poor are addressed.

The economic development of Sri Lanka reflects the differential implementation of market reforms.<sup>3</sup> The Western region has cut its poverty rate in half; meanwhile, lagging reforms in other sectors have kept the rest of the country predominantly rural, with stagnating incomes. Reforms in paddy cultivation, as well as policies to improve the marketability of agricultural products have been almost absent. Lack of reforms in land markets are also a key barrier, but are beyond the scope of this activity.

The geographic differential in the impact of growth is also notable. While growth in the western province has been pro-poor, growth in other regions has had much less of an impact on poverty, and in some areas, poverty has even increased, with low rates of growth. The differential cannot be explained solely by differentials in literacy or education. Differences in infrastructure, while also significant, are also not sufficient to explain such significant differentials. Remittances have also been a significant factor in easing the impact of the conflict on populations in the North and East, resulting in incomes that have remained roughly similar to those elsewhere outside the Western province.

Reforms, which have spurred development of the Western province, include those in manufacturing, trade, transport, telecom and financial services. By contrast, agricultural reforms that would have benefited the East and North have largely been absent. The Government's continued role in agricultural commodities, factor markets (land, labor), and the provision of economic infrastructure are a legacy of Sri Lanka's socialist traditions, and undermine the efficient functioning of those markets. Policies that distort the market include paddy land provision, fertilizer subsidies, and frequent changes in agricultural tariffs. Protectionist tariffs on rice keep farmers in low value crops, and farmers granted land under the Land Development Ordinance cannot use

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<sup>3</sup> Sri Lanka Development Forum: The Economy, Regional Disparities, and Global Opportunities. World Bank, January 12, 2007.

the land for collateral, lease or sell it. Sri Lanka has the most restrictive labor laws in Asia. They restrict firm growth, since they only apply to firms with more than 15 employees and make firing (and hence hiring) virtually impossible

Yet, beyond the Western province, there are significant opportunities for growth and investment if a reasonable policy environment supports them. Sri Lanka can build on its 25-year experience in tapping emerging global markets. The Government's development framework emphasizes the importance of the knowledge economy. For example, Sri Lanka has a welcoming business environment for off shoring business. Sri Lanka has a world class legal framework for ICT development and e-commerce that protects copyright and intellectual property. Cell phone growth has rapidly outpaced internet usage, but still remains underutilized in the conflict areas in the North and East (see <http://ppc.usaid.gov/esds/economy.cfm>). The significant weaknesses of the ICT sector include the relatively low level of English language skills, lack of connectivity outside the capital and the ongoing conflict. Long delays and complexity in the business registration process is also a significant factor.

### 3. OBJECTIVE

Building on earlier and ongoing Mission economic growth programs such as AgEnt, TIPS, Sri Lankan Tsunami Reconstruction Program, The Competitive Initiative and its successor TCP, PEACE seeks to address the disparity in economic development between the North and East and the rest of Sri Lanka. This disparity is a major driver of Sri Lanka's ongoing ethnic conflict. PEACE can help establish conditions conducive to a political solution to the conflict by fostering economic growth that addresses regional and socio-cultural inequities.

To achieve this goal, PEACE has four component objectives:

1. Promote the competitiveness of agriculturally based value chains<sup>4</sup> that offer or have the potential to offer sources of income for traditionally neglected groups located in conflict-affected<sup>5</sup> and –strategic areas<sup>6</sup>. The PEACE proponents may also suggest other non-agricultural value chains.

2. Ensure that groups located in conflict-affected and -strategic areas benefit from participation in selected value chains. This will involve the promotion of win-win relationships between value chain actors. This will address power imbalances as well as equitable access to the resources needed to participate viably in selected value chains, i.e. finance, business services, infrastructure, and ICT (to improve

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<sup>4</sup> Agri-based value chains include both farm and non-farm activities supporting a given value chain. Non-farm activities can include processing, transport, input suppliers, and service providers.

<sup>5</sup> Conflict-affected areas are those places where populations have been directly affected by the ongoing ethnic conflict.

<sup>6</sup> Conflict-strategic areas are typically on the border of active conflicts and/or harbor the conditions that led to the conflict in the first place, such as poverty and unemployment. These are areas such as North-Central Province and Moneragala district.

access to markets, market information, business skills and other information on the “outside world.”)

3. Implement a workforce development strategy that benefits groups located in rural, conflict-affected and -strategic areas and that is driven by the needs of selected value chains.

4. Promote a business enabling policy environment that will allow businesses in conflict-affected and -strategic areas to grow and become sustainable.

#### **4. STATEMENT OF WORK**

PEACE will build upon the achievements of previous and ongoing USAID economic growth programs, while bringing to the new program a strong emphasis on the more equitable distribution of benefits. The Mission activities to date offer a number of examples of interventions with impacts that PEACE may want to develop further to the benefit of populations in conflict-affected and –strategic areas. (See Text Box 4.1 for illustrative examples.)

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##### **Text Box 4.1: A Value Chain Approach to Rural Development -- Examples from The Competitiveness Program (TCP)**

USAID’s main Economic Growth project in recent years, called The Competitiveness Program (TCP), has been working with eight industry clusters that account for 23 percent of the total workforce. Since the project’s inception in 2000, export earnings of these sectors have grown at an average rate of 8.8 percent per year, and the value added component has increased by 50 percent; by comparison, the value added component for other sectors increased by only 27 percent. Four of the clusters -- Coir, Rubber, Spices and Tea -- involve activities with a strong rural out-reach. This text box cites three examples in which exporters at the down-stream end of the value chain have invested in promoting rural up-stream development that will increase exports, enhance value added, create new job opportunities, and improve rural standards of living. While support to the current TCP programs will end in FY2007, it may make sense to continue support in the clusters identified above, and to apply lessons learned from TCP to agribusiness, non-farm activities and ICT.

##### **Coir Research, Development and Training Center (Model Mill Project)**

On August 24, 2005 the Coir cluster completed an agreement to establish a Coir Research, Development and Training Centre involving the Coir Council International (CCI), the Coconut Development Authority (CDA), the Coconut Research Institute (CRI) and the Industrial Technology Institute (ITI). The signing facilitated the release of a US\$480,373 grant from the Common Fund for Commodities (CFC). The full cost of this public-private partnership is US\$730,000, with Sri Lankan counterparts funding the balance. TCP supported the initiative through a long incubation period

from concept to pre-implementation. The Centre is located on a small CDA coconut estate in Dunkannawa, 50 km north of Colombo. It will consist of a mill housing a full fiber processing line, and a small on-site fiber lab, plus meeting and training facilities. The focus is to develop technology and training programs to increase productivity and quality of coir mills in all suitable areas of Sri Lanka, to the benefit of rural entrepreneurs, their employees, and the coconut farmers.

### **Moneragala Rubber Development Program (MRDP)**

This program was developed by the Rubber cluster to resolve a critical supply chain problem. Sri Lanka's rubber industry consumes more than 80,000 metric tons of raw rubber per year, with demand growing by 10 percent per year. An adequate and consistent supply of raw rubber for value addition is essential for sustaining rubber industry competitiveness. Yet raw rubber production in Sri Lanka has been on the decline since the 1980s, forcing rubber product manufacturers to import raw significant volumes at high cost to cover the shortfall. One leading manufacturer has expanded to Thailand to circumvent the scarcity of raw rubber in Sri Lanka. To alleviate these constraints, the Rubber Cluster recommended the expansion of rubber plantations to the Moneragala region. The cluster formed a coalition of companies to invest in plantations, and convinced the government of the value of the program. The Ministry of Plantation Industries has worked closely with the private sector. The ensuing partnership has been highly effective, and has drawn IFAD support for a joint investment of US\$35 million. This initiative will create over 700 jobs, with wide multiplier effects, in one of the poorest districts in Sri Lanka. USAID/Sri Lanka has committed to use local currency funds to establish a rubber cluster training center in Moneragala to support development of the area in coordination with the IFAD effort.

### **Spices -- Good Manufacturing Practices for Cinnamon Processing**

The Spice Council (TSC), in collaboration with the EDB, GTZ, the Cinnamon Association of Sri Lanka, and a private cinnamon grower/processor, set up a cinnamon-processing center using Good Manufacturing Practices (GMP) at Kosgoda, Balapitiya, in the Southern Province. The center opened on August 12, 2005. This is the first processing center of its kind in Sri Lanka, and is open for anyone in the industry to visit, observe, and replicate. SGS Lanka (Pvt.) Ltd, a member of TSC, carried out the evaluation and conferred the GMP certification to "Dasanayake Walauwa Cinnamon Plantation." The cost of the project was Rs. 3 million, of which Rs. 1million was provided by the National Council for Economic Development (NCED) as a grant through the EDB.

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Additionally, PEACE will follow a value chain strategy developed through a conflict lens. While reducing the economic disparities between conflicting factions can contribute to peace building, Sri Lanka has also seen economic development efforts that have exacerbated conflict. PEACE will need to develop models that satisfy several bottom lines: the creation of job and income opportunities and the reduction

of tensions. The Mission has solid experience in the peace-building realm through the Office of Transition Initiatives (OTI) small grants program in the East, which seeks to bring ethnic communities together to plan and implement infrastructure and other projects that serve all communal interests. The OTI field offices in Ampara and Trincomalee provide a model for a PEACE field presence and a strong experience base to build upon.

## 5. GEOGRAPHICAL COVERAGE

The PEACE program will target two provinces: North Central and Eastern provinces. Within these two provinces, the programs should focus on 2-4 districts. The proposed geographic focus will enable USAID to:

- Maintain a presence in conflict affected districts;
- Obtain first hand information about the program needs in conflict affected districts;
- Implement a program strategy that demonstrates a balance between ethnic groups;
- Build on targeted elements of USAID's current programs, and

The final decision of the contractor's sub-regional program locations will be made by the USAID CTO. One key factor will be ensuring coordination with the implementation of USAID's Democracy & Governance "RIGHTS" program. The Mission requires an Economic Growth (EG)/PEACE field office to be established in the Eastern Province (Ampara District). Offerors should read the USAID's Democracy & Governance "RIGHTS" program location requirement as well. We expect both the contractors' staff of PEACE and RIGHTS program to be posted physically close to each other. USAID seeks an integrated, complementary programming focus in both areas of Economic Growth and Democracy and Governance.

## 6. PEACE PROGRAM COMPONENTS

Under the Statement of Work, the PEACE project will:

**1. Improve the competitiveness of agriculturally-based (and possibly other) value chains, which benefit large numbers of traditionally underserved populations in conflict-affected and –strategic areas and which link them to growth opportunities, including domestic and/or export markets.**

The first step in value chain development is "sector selection." To ensure that PEACE objectives are met, selection criteria will need to include (but not be limited to):

- Potential for competitiveness and thus growth
- Potential to benefit large numbers of micro and small firms or farmers from conflict-affected and –strategic areas.

- Potential for constructive communication and economic linkage between those who have traditionally been left out of growth opportunities and those who have traditionally benefited from economic growth.

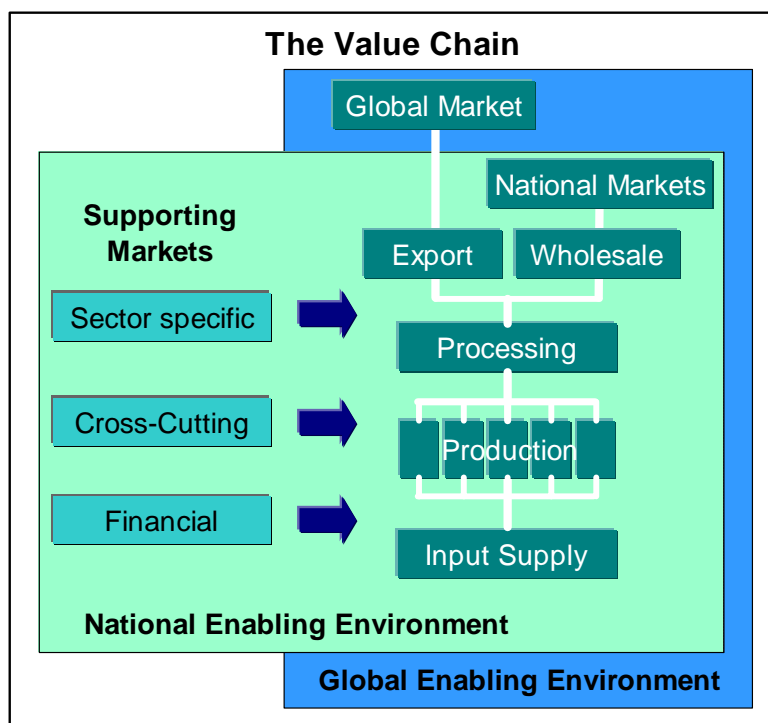
Growth is a prerequisite for the generation of all benefits up and down the chain; and competitiveness drives and underpins growth. Fostering the competitiveness of the value chain involves three strategies: (1) a strategy for competing in the final market and meeting the needs of end-market buyers; (2) an upgrading strategy that points to the interventions needed to ensure that firms and/or farmers in the value chain are able to meet the demands of the end market; (3) a strategy addressing power imbalances among firms, the equitable distribution of benefits and access to learning, market information, and other forms of knowledge necessary for ensuring that all value chain participants contribute to and benefit from value chain competitiveness.

PEACE will need to identify value chains in which large numbers of populations in conflict-affected and –strategic areas currently or potentially participate and which have potential for growth (a strategy for competing in final markets). To ensure that populations in conflict-affected and –strategic areas benefit from this economic activity, PEACE will need to develop an upgrading strategy based on an analysis of the constraints in the value chain and particularly those faced by those at the bottom, where the poorest suppliers tend to operate.

The upgrading strategy is designed to address identified constraints as well as the incentives and/or disincentives of poor firms and/or farmers to invest in upgrading. The upgrading strategy also includes the identification of interventions needed to address value chain constraints. Interventions aimed at “upgrading” small firms and farmers – as well as all actors in the chain – must be based on a constraint analysis and must address identified constraints. While interventions suggested here may include technical assistance for agri-business projects, new product identification and post-harvest food storage, cold-chain management, ICT, finance, and business services, interventions must be driven by analyses of constraints. Moreover, not all constraints are equal. Constraints need to be prioritized based on: (1) demands of the end market, (2) impact on competitiveness, (3) impact on peace/conflict, and (4) impact on benefits for the population in conflict-affected and –strategic areas.

Upgrading involves risks as well as investment capital. Vulnerable and poor populations in conflict-affected and strategic areas are least able to absorb risks and come up with capital for investments. While upgrading is typically viewed through a private sector lens – that includes private providers of upgrading services and finance, PEACE will need to be sensitive to the needs of the population in conflict-affected and –strategic areas. Additionally, USAID needs to demonstrate impact in the short and the long term. Thus PEACE should look for short-term solutions to upgrading that can lay the groundwork for longer term solutions appropriate for the targeted populations.





Typically an upgrading strategy will involve interventions to strengthen vertical linkages between all actors in the chain. PEACE will need to give special emphasis to links between farmers or firms in conflict-affected and –strategic peripheral areas and buyers in more economically developed areas. USAID’s Global Development Alliance program can be particularly useful in this sense, and the Mission intends to develop GDA partnerships to bring important additional resources to the PEACE program.

Power dynamics are embedded in these vertical relationships between buyers and suppliers and can prevent small farmers and firms from benefiting fairly from their participation in a value chain. When win-lose relationships prevail between supplier and intermediary or buyer – expressed in the form of predatory behavior on the part of intermediaries/buyers, unfair payment for product, and/or an unwillingness to share valuable market information with suppliers – the competitiveness of the entire value chain ultimately suffers. Thus addressing win-lose relationships is key not only to USAID’s objective related to ensuring benefits for populations in conflict-affected and –strategic areas but also to the overall growth potential of the value chain and the reduction of tensions. Skill sets from the Mission’s Democracy and Governance program may be particularly useful and provide an opportunity for integrated USAID programming, an important Mission goal. PEACE proponents are encouraged to analyze such opportunities for inclusion in their proposals.

Horizontal linkages are also key to value chain development. Where lots of small producers are involved, a strategy is needed to reduce the transaction costs of working with so many suppliers, the costs of product consolidation, and service delivery. Moreover, horizontal linkages – in the form of producer groups, cooperatives, and associations (at any level of the chain) – represent a key means for improving the bargaining and advocacy power of small, disadvantaged farmers or firms. Organized, small farmers can achieve greater bargaining power in the marketplace, lobby for policy reforms, and access finance and market information.

The contractor will provide technical assistance to:

- Select value chains using the above criteria
- Develop an end-market strategy for each value chain demonstrating how the chain will achieve competitiveness and meet the demands of the end market

- Develop an upgrading strategy based on a value chain analysis that prioritizes constraints based on the above criteria
- Identify interventions that addresses priority constraints
- Design and implement priority interventions to develop competitive value chains using a conflict-sensitive lens.
- The technical assistance provided by the contractor will be designed to incorporate learning. As the project evolves, the contractor will – through learning – identify newer constraints and new interventions. Consequently, the workplan and budget will have the flexibility that will allow for a dynamic and cyclic process of learning through analysis, implementation and monitoring of performance.

## **2. Foster increased access to finance, business services, infrastructure, ICT and business skills (through workforce development) to populations in conflict-affected and –strategic areas.**

If small producers in conflict-affected and -strategic areas are to benefit from participation in selected value chains, interventions need to focus on the power relationships between firms and the extent to which they are win-lose or win-win. Unless suppliers at the bottom of chains benefit sufficiently, they will neither have the incentives to be good and loyal suppliers; nor will they have incentives to invest in upgrading needed to meet the demands of the end market.

Improving the skills, capacities and access to information of poor suppliers at the bottom of value chains can also be important to share power in the market place. Workforce development activities are essential for youth and other vulnerable populations to even participate in economic activities. For other populations in conflict-affected and –strategic areas, training and technical assistance will likely be needed. Research has shown that on-the-job training or training and technical assistance provided by value chain experts is most effective. PEACE will use strategies for facilitating training by actors in the value chain. In Cambodia, USAID’s MSME project convinced input suppliers to provide training to farmers. The win-win result was highly technical training provided for free to farmers and for input suppliers the result was a three-fold increase in sales of inputs. The Mission’s GDA partnerships will play an important role in this regard, and the contractor will be expected to work with potential GDA partners to help shape and target training and capacity building opportunities for beneficiaries at the upstream end of the value chain.

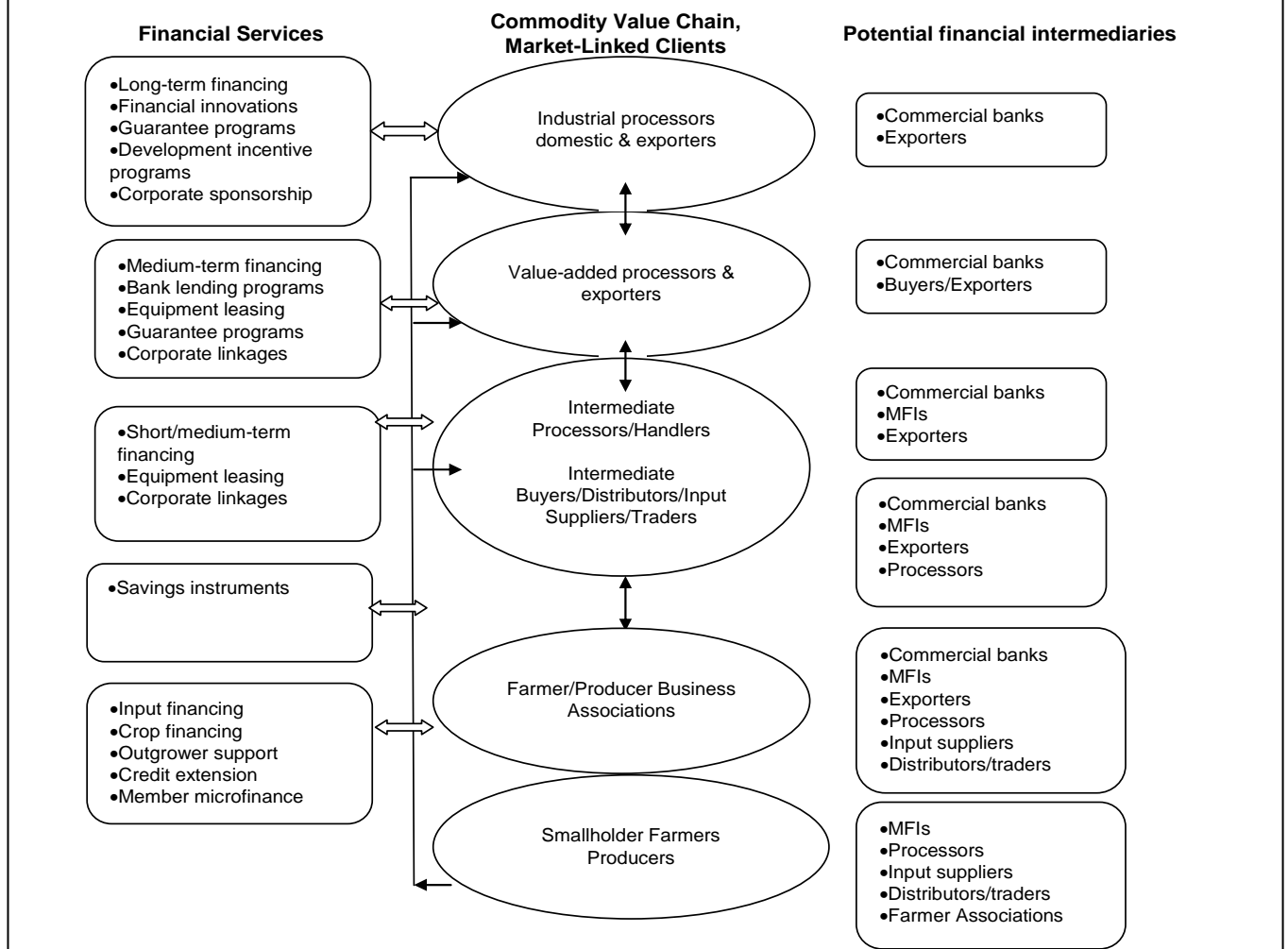
Moving inter-firm relationships from win-lose to win-win can also be achieved by improving the access of those on the “lose” side of the relationship to finance, market information, market options, and business services. Power dynamics can also be changed through organization – allowing very small firms to bargain in the marketplace like a larger firm. The contractor will analyze the need for organizations in this regard and may provide technical assistance to help form cooperatives, business associations, etc. if warranted.

### **Value Chain Finance**

To be able to upgrade, firms or farmers may need access to finance. Analysis already conducted suggests that finance is a constraint – this finding will need to be verified through a constraint analysis of the value chain(s) (see discussion above).

Value chain finance involves analyzing the constraints of all actors in a value chain, identifying the types of financial institutions that might meet their financial needs, and identifying the types of products needed by the value chain actor. Using the value chain finance lens, finance can be provided by an actor who can access commercial finance and can on-lend this money to those who do not have access to financing. Credit guarantees provided to larger firms can thus improve access to small firms – to the extent that it is in the commercial interest of the larger firm to provide capital to its suppliers. See diagram below for depiction of value chain finance.


# Financial Services Along a Value Chain



*The contractor will provide technical assistance to:*

- Assess the selected value chains to identify the constraints and opportunities related to financial services;
- Where there are financial constraints, facilitate viable delivery of financial services whether through the value chain (i.e., value chain financing – see graphic below) and/or through a stand alone provider such as a micro-finance institutions or banks;
- Facilitate new tailored financial products that will benefit farmers and firms in conflict strategic areas and in competitive value chains (i.e., the financial service may not be directed at the small farmer/supplier/producer) – including leasing, warehouse receipts, insurance, guarantees, etc.
- Strengthen financial service providers that are active or could be active in financing farmers and firms in conflict strategic areas and other actors in the selected value chains.

Illustrative activities could include direct support to the commercial lenders. Drawing on some of the lessons learned by The Competitiveness Project, one financial constraint faced by several value chains is the misperception of risk in certain lesser-banked sectors

or due to lesser-known banking schemes. For example, gveda heat treaters in the gem industry have found it difficult to acquire the holding power to buy and heat treat rough gveda. ause banks in Sri Lanka are typically averse to lending against stock. In several instances businesses on all levels of the value-chains are prevented from accessing finance due to high collateral requirements. This is generally a consequence of a lender's unwillingness or inability to veer from asset-backed lending to more sophisticated cashflow-based lending model.

In identifying financial constraints and possible interventions, the contractor can draw upon lessons learned by TCP as well as resources USAID/Sri Lanka already has in place, including a \$3 million credit guarantee facility (DCA) with a local leasing company. The guarantee facility covers 50% of all loans and leases the company makes in agriculture, tourism, fishing, and alternative energy in tsunami-affected areas. The leasing company is based in Colombo but has operations throughout the country. The mission also has a strong working relationship with several microfinance organizations, including Sarvodaya Economic Development Services project (SEEDS), which has operations in conflict-affected areas in the East. Possible interventions could build upon current work that is being done by these microfinance institutions and support them in meeting the particular needs of vulnerable populations.

### **Business/agricultural services**

Business/agricultural services – considered a supporting service or market - can be either sector-specific or cross-cutting. Sector-specific services can include ag-inputs and services related to the use of seeds, fertilizers, and small scale irrigation equipment; they can involve vet services, tractor services, and transport. Ideally, these services should be provided within a market context – either by actors in the chain or by stand-alone businesses - to assure not only sustainable delivery, but also to foster greater flows of information, knowledge, and skills regarding production (i.e., encourages innovation).

Generalized, non-sector specific business services such as how to run a business, management, and marketing tend to be less relevant to value chains that are dysfunctional or disconnected. Demand for these services typically follow the growth of demand for sector specific services. While in many instances, these services are more effective at the lead firm level (especially in export industries) where firms have to have competencies to compete in more mature markets, some of these services may be needed by the very vulnerable populations with no experience in an economic activity. Workforce development might be most appropriate to these populations.

First and foremost, PEACE's supporting market activities will need to be based on a constraints analysis. Moreover, given the vulnerability of the populations that PEACE is targeting, strategies will be needed that are sensitive to this population and their special needs as well as sensitive to USAID's needs for quick and tangible impacts.

USAID's Microenterprise Development office offers a case study (at [http://www.microlinks.org/ev\\_en.php?ID=7095\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=7095_201&ID2=DO_TOPIC) ) that tells the

story of how one FINTRAC in Honduras worked in a post-disaster setting. The case study: (1) describes a “jumpstarting” approach to agricultural development that seeks to achieve immediate results while incorporating a plan for long-term sustainability; (2) articulates the conditions under which “jumpstarting” can be part of a long-term development strategy, and (3) presents some guiding principles for sustainability to ensure that the results of such efforts last beyond the life of the project. This case study might be useful to the contractor in balancing short-term impacts with longer-term sustainability goals.

*The contractor will provide technical assistance to:*

- Identify supporting market constraints and interventions based on the value chain analysis
- Develop an intervention plan for supporting markets that prioritizes constraints and is sensitive to populations in conflicted affected and strategic areas to USAID’s needs for quick and tangible impacts.
- Where and if needed, facilitate viable sector-specific supporting markets that deliver new technology, inputs, or important output services (i.e., micro-irrigation, transport, cooling);
- Where and if needed, facilitate viable non-sector specific supporting markets that deliver services or products (i.e., legal, accounting, management, marketing information, ICT)
- Facilitate innovations in payment mechanisms or product offers that are tailored for capacities of farmers and firms in conflict-affected and -strategic areas; and
- Facilitate increased flows of embedded services from providers of support services or products to farmers and firms in conflict strategic areas.
- Complement facilitation activities with implementation activities that address the special needs of conflict-affected populations as well as being sensitive to USAID’s needs for quick and tangible impacts. This may involve the creative use of subsidies or grants that avoid to the extent possible market distortions.

### **Infrastructure**

Enterprises and vulnerable populations in the conflict-affected and -strategic areas, in many instances, have either been de-capitalized or have never had access to the capital, technologies and equipment needed to upgrade and meet the demands of buyers. In the light of obvious market failures in these regions, it will be appropriate to consider measures to jump-start enterprises, particularly those necessary to the effective functioning of targeted value chains. While current financing mechanisms may address certain needs for capital equipment, there will be a number of firms and farmers that have capital needs that exceed the limits of existing institutions. In that case, there is demonstrated experience that partial, directed (perhaps in-kind) grants can be a useful mechanism for jump-starting production or processing enterprises. The program would need to operate in concert with other programs and fill market failures, so that it does not distort the market.

*The contractor will provide technical assistance to:*

- Assess the needs of populations in conflict-affected and –strategic areas for capital equipment or other small infrastructure that address their constraints in participating effectively in selected value chains
- Develop a plan for offering small infrastructure investments to populations in conflict-affected and –strategic areas without overly distorting markets
- Implement this plan.

### **Information and Communication Technologies (ICT)**

ICT includes Internet access, cell phone networks, radios, and even digital cameras. All of these ICT's can be used – and combined -- to help address key constraints in value chains. Residents in both rural areas and conflict areas may have limited access or experience using computers and cell phones but in other areas where the Mission's Last Mile Initiative Centers (LMI) are established, access is available to the community. Given the importance of access in conflict areas to any intervention offered by PEACE, special attention must be given to the accessibility and affordability of any ICT-enabled intervention introduced. Because cell phone use is growing in Sri Lanka, interventions that rely on cell phone usage may be promising. If an intervention depends on users' Internet broadband access, care must be taken to ensure access is available even in the conflict- areas. Dial up Internet access is more likely available for e-mail and small downloads since broadband has yet to reach the rural and conflict areas.

ICT can enhance a wide range of interventions to address key constraints and power imbalances. For example, ICT can improve *access to information* to small hold farmers in the value chain – information regarding market prices, supply chain management, availability and pricing of inputs; weather; and technical information about agriculture techniques and pests. With support from USAID's TCP, the Government of Sri Lanka's Govi Gnana Seva (GGS) initiative in Dambulla has been a successful model. GGS is a simple solution that collects and disseminates live information on market prices electronically via a number of large 8 by 6 feet screens hung at the Dambulla market to increase the bargaining power of farmers coming in to the market with their produce. These screens provide the daily high and low prices for all produce sold along with the price trend and the current 'going price' for farmers to decide how much to bargain for. From having no independent information at all, now increasing numbers of farmers and collectors are beginning to ask for the best prices they could obtain based on the live price feeds. More importantly this information is being relayed live via the Internet to anyone with access to a network connection.

ICT can also enable *applications* that can enable small hold farmers to work together virtually, making it easier for large, end-market buyers to deal with them efficiently or enable small farmers to use data gathered for others' purposes (e.g., to meet end-market traceability requirements) to more precisely time and manage steps in their farming production cycle (e.g., planting of seedlings or applications of expensive inputs) to increase export yields with no increase in inputs.

*The contractor will provide technical assistance to:*

- Assess the selected interventions (e.g., related to finance; infrastructure; power imbalances; improvements to horizontal and vertical linkages) to identify where ICT may be incorporated to enhance results;
- Integrate the design, development, testing, and implementation of the ICT-enabled component into a community centered group, ensuring the ICT component is sustainable and scalable without further donor assistance;
- When designing any ICT-enhanced intervention, design – prior to development and testing -- the technical and training approach *as well as* the business approach to operate the intervention in a sustainable way;
- Define and, where needed, address the power requirements for the ICT intervention by selecting low power ICT devices as well as sustainable sources of power with shared usage where possible;
- To the extent practical, design and develop any ICT interventions so they can be adapted and re-used elsewhere;
- Identify, where feasible, public-private partnerships (including GDAs and other donor's funds) to leverage project funds and sustain activities;
- Leverage, where practical, the ICT access requirements of other large ICT users in the target area in order to increase sustainability of the ICT-enabled interventions and, possibly, increase the commercial viability of private sector expansion of telecommunications to the target area. Building on and coordination with the ongoing LMI project will be particularly important in this regard;
- Take special care not to “re-invent the wheel”: build on related lessons learned and best practices by sharing plans and direction with the Mission and USAID/I&E/ICT team in Washington, DC.

Illustrative ICT-enabled interventions include:

- Learning to use supply chain management software enabling large wholesale buyers to receive the *quantity, quality* and *type* of produce they need *when* they need it and enabling small hold farmers to better manage their portions of the chain.
- ICT-enabled farm extension applications can help farmers find answers to their farming questions fast or, when needed, have the questions routed to experts who can answer them.
- ICT-enabled business services such as ways for farmers to learn prices – or deals on – inputs needed or aggregate their purchases and delivery of inputs to save money.
- ICT-enabled financial services such as m-banking (using cell phones) capabilities to make loan payments or deposits or withdrawals from savings accounts and allow MFI's reduce transaction costs; increase repayment rates; and increase their customer reach.



- ICT-enhanced workforce development services using DVD's; radio or even the Internet to extend access to services; monitor quality of services; or inform potential clients of service availability and its benefits.

### **3. Implement a workforce development program that develops the skills needed by youth and others at risk of becoming involved in conflict to participate effectively in selected value chains.**

Human capital in conflict-affected and -strategic areas is low especially amongst youth and other vulnerable populations. Yet these populations may be most at risk for becoming involved in conflict. PEACE may be able to offer these populations a workforce development program that is tailored to the needs of selected value chains and takes into consideration some of the labor market policies that make hiring this population unattractive. USAID/Sri Lanka currently has a work force development under way (ASAP) which ends in September 2008. The PEACE workforce development program will build on ASAP, to the extent practicable. The Mission anticipates that the PEACE contractor will focus on the value chain component in year one, and plan for the workforce component of PEACE to start on or about October 2008 following and building on the ASAP program. Likewise, through the Sri Lankan Tsunami Reconstruction Program (SLTRP) the Mission is currently constructing and outfitting vocational education centers, including five in the East, due for completion by March 2008. The PEACE program will seek opportunities to strengthen these five eastern centers through the workforce development program. Contractors will need to become familiar with the SLTRP and develop a plan to fill gaps in curricula, teacher training needs, sustainability planning and career placement for graduates following completion of SLTRP in order to ensure the centers fulfill their potential for sustainable workforce skills development in eastern Sri Lanka. Likewise, the PEACE contractor will assist in the development of the planned Moneragala rubber cluster training center to be built with Mission PL-480 local currency funds.

*The contractor will provide technical assistance to:*

- Assess the potential demand of the selected value chains for skilled employees, and their ability to offer apprenticeship training;
- Assess available sources of training for the skills needed by the value chains and explore ways to extend these training resources to target areas using ICT (e.g., radio, computers, DVD's; Internet; even cell phones) or other means;
- Assess which components of ASAP are relevant for the PEACE workforce development program and identify any lessons learned and best practices ASAP offers regarding conducting workforce development activities in conflict-affected areas;
- Understand lessons learned and best practices from workforce development efforts in areas with similar characteristics;
- Assess the gaps in the demands of the private sector job market and applicants so that participating workforce development programs can address;

- Develop PEACE Workforce Development Program, including types of technical assistance to be provided; public private partnerships (see discussion of SLTRP and Moneragala training center above); other types of interventions to be implemented; resource and work plans; results indicators.
- Implement PEACE Workforce Development Plan.
- Possible interventions might include an apprenticeship program that provides youth and other vulnerable populations on-the-job training or work-study programs. All workforce programs will be directly relevant to the local demands of employers for specific skills. As a result, workplaces will be visited, speakers will be invited, and practical on-the-job type tasks will be incorporated into all activities. A voucher program might offer employers incentives for hiring this at risk population.

#### **4. Foster an enabling environment that facilitates economic growth and reduces inequities and conflict.**

The Government of Sri Lanka has identified the development of the agricultural sector in critical geographic areas as a priority for the Government. The ten year development framework issued by the Government last year, the *Mahinda Chintana: Vision for a New Sri Lanka* targets growth in Agriculture as one of the main drivers of the economy, along with tourism. The vision for agriculture emphasizes achieving food security and raising incomes of small farmers. The strategies include (i) increasing competitiveness through modern technology, (ii) shifting to commercial agriculture; and (iii) promoting diversification into higher value products (fruits, vegetables, livestock, and fisheries). However, it isn't clear whether the agenda includes efforts in policy reform.

The Government already has plans to implement a program of improved agricultural services, under its *Mahinda Chintana: Vision for a new Sri Lanka*. Under this ten-year program, the government is envisioned to fill many roles that might be better filled by the private sector, including production and distributing of improved seeds, land use and planning, and subsidies for non-plantation agriculture. While this has the potential to support the development of higher value agricultural production, the program may also be implemented in a manner that undermines the goals of this program.

The *Vision for a New Sri Lanka* provides an opening for serious policy dialogue, since the objectives of the ten year program are worthwhile, but the proposed means are inconsistent with internationally accepted best practice. The planned interventions of the government could have significant implications for achieving USAID's objectives.

*Therefore, the PEACE contractor will provide technical assistance to the government, if feasible, to shape its agricultural support program, since the proposed policies could easily undermine programs hoping to shift the agricultural sector to higher value commodities linked to export markets. This may include involving local technical*

institutions and think tanks to develop analyses that can support a thoughtful process of debate that will include serious discussion of the long-term impacts of these policies. However, while think tanks and other sources of analysis are key to a successful advocacy process, the advocacy process should be led, where at all possible, by representatives of the sectors in question. The National Agribusiness Council is an example of the type of institution that has the capacity to play a key role in representing a more global perspective in the discussion.

Even beyond the agricultural sector, policy advocacy should be led, where, possible, by business advocacy groups. Where possible, private sector actors (for example, the Federation of Commerce and Industry Sri Lanka (FCCISL) and its eastern Chamber partners) involved in the debate should be supported in engaging local think tanks and universities that can provide substantive input into discussions with the government. PEACE contractors should consult with TCP for their perspective on required policy reforms for sustainable economic growth.

Policy dialogue should include, and where needed, focus on the local and regional enabling environment. Local and regional regulations, or their implementation, may often pose more significant barriers to enterprises than the national environment. In developing a policy agenda, the program should be guided by a thoughtful dialogue with enterprises in the targeted sectors. In other words, the development of the policy agenda should be guided by the defined enabling environment barriers that are prioritized by the targeted sectors.

Given that some local and regional barriers may be priorities, the program should be prepared to engage with local and regional institutions to achieve its objectives. It will be critical that the program builds, to the extent possible, on existing experience and structures that have been developed through other USAID programs. The work of other USAID programs in institution building, transparency and responsive governance could be important factors in the ultimate success of policy and regulatory reform initiatives.

The policy program should be oriented towards maximizing the total impact of the USAID program.

*In order to produce the greatest impact, the contractor will provide technical assistance:*

- To ensure that the enabling environment is considered as a factor in selecting sectors so as to avoid surprises at a later date that a particular policy prevents progress and is too difficult to change.
- Given the environment in Sri Lanka, trade policy may be an important consideration. Value chain analysis should also consider local and regional laws, policies and institutions that may play a significant role in the normal operation of enterprises.
- Implement a rapid assessment of the particular policy and regulatory barriers that may impede the success of selected value chains and identify priority reforms.

PEACE should engage in an explicit cost-benefit analysis to identify the reforms that are most pressing and that are also achievable given the program's resources. This should be accomplished through dialogue with businesses in the sector and relevant government counterparts.

*The contractor will:*

- Develop a strategy for reform. The strategy should include: (1) the identification of local institutions or associations which will lead the process (including those which may be started or strengthened by the program), and key participants in the process who are necessary for successful reform; (2) approaches to getting reform onto the national or local agenda; (3) the role of local think tanks, universities or other institutions in developing concrete analysis which will inform the policy debate and provide advocates with substantial basis to support arguments for reform; (4) a framework of the proposed coalitions for reform; and (5) an identification of key vulnerabilities and challenges and address how those will be met.
- Identify how PEACE will build on other USAID and other donor programs operating within institutions that are relevant to policy reform objectives – so as to ensure the efficient use of resources.
- It is very important that the program utilize its resources efficiently. Based on dialogue with the other donor programs and the donor itself, the consultant will determine how it will collaborate with other programs to best meet its objectives.
- Integrate the business environment reform strategy into the program workplan.

## **7. INTEGRATED PROGRAMMING**

The PEACE program is one of two key components in USAID's strategy designed to respond to the conflict in Sri Lanka, the other program (RIGHTS) focusing on peace-building, democracy and governance, and a participatory small grants component.

The USAID strategy cannot be viewed through a narrow technical lens; at the community level, perceived economic, humanitarian and development needs can serve as a platform to promote co-existence and mitigate conflict. In designing their technical response to this statement of work, contractors must be cognizant of the Mission's democracy and governance programs including that announced under RFI #383-07-02 and establish credible strategy that creates linkages between the two programs. USAID has design two complementary statements of work for the programs as part of one broad strategic approach by the Mission.

### **Cross Cutting Issues:**

Offerors should consider the following examples of possible linkages between the PEACE and RIGHTS programs:

- Conflict mitigation and peace building activities that support community consultative mechanisms will develop local action plans that may identify small scale economic growth; workforce development, and micro-finance projects under PEACE that serve as a platform for more specific objectives under the RIGHTS program.
- The RIGHTS program will support local government capacity building, with an emphasis on: financial management, service delivery, and participatory planning to increase accountability and transparency. In all these areas, linkages with citizen groups, traders associations, regional chambers of commerce serve to ground these technical assistance and training programs in the reality of the local economy. Many of these groups are also potential PEACE partners.
- The RIGHTS program, in coordination with PEACE, may support a national alliance of regional Chambers of Commerce to engage the private sector; promoting the role of the business community in supporting the peaceful resolution of the conflict. Many of these regional chambers suffer from a lack of capacity to engage with national institutions, both within the government, civil society and the private sector. Beyond the world of non governmental organizations, many civil society organizations such as, the chambers and the cooperative societies often suffer from a lack of inclusivity. Promoting inter-ethnic linkages and collaboration between such civil society organizations can begin a process of reconciliation. The contractors should consider these and other organizations and networks for support under the small grants component of the RIGHTS program.
- Public – Private partnerships are an important element of USAID’s conflict response strategy. Such partnerships are often more obvious within the scope of economic growth programming. Nevertheless, awareness raising within the private sector both at the regional and national level should be part of the PEACE program’s strategy to sustain support for conflict response programs.

More specific examples of joint PEACE-RIGHTS programming may include:

- Work with local Chambers of Commerce on district and provincial private sector policy issues.
- Work with People’s Forums to identify and prioritize local development needs and private sector policy issues
- Incorporate peace building, mediation, human rights and civic education in the workforce program.
- Target workforce program to conflict affected, disaffected, unemployed youth of different ethnic groups and seek ways to bring them together through exchange visits, training, etc.
- Engage business leaders and owners on political reform and advocacy

- Utilize participatory, community-based approach to program implementation
- Share lessons learned from past and ongoing DG, OTI, SLTRP and TCP activities.

## **8. CRISIS MODIFIER**

Given political and security developments in Sri Lanka as well as the country's vulnerability to natural and man-made disaster, USAID/Sri Lanka is developing a scenario-based crisis modifier.

This proposed scenario-based plan is an outgrowth of USAID/Sri Lanka's experience and lessons-learned from implementing programs in Sri Lanka during the periods of conflict and natural disaster. Described below are the critical assumptions and the triggers that will cause movement to a crisis modifier strategy.

In Sri Lanka there is potential for increased violence and conflict resulting in a restrictive enabling environment caused by:

- Increased military and/or LTTE strikes resulting in a deteriorating human security environment;
- Increased humanitarian crises caused by man-made or natural disasters;
- Increased human rights violations;
- Shrinking space for public political discourse and dialogue and targeting of media professionals;
- Worsening economic indices leading to political instability and increased conflict; and
- Localized conflict and grievances associated with increased internal displacement of civilian populations.

Given the proposed program's field-based approach, USAID anticipates an enabling environment characterized by: (a) the ability of USAID's primary implementing partners to work in the designated regional programming areas, and (b) the safety of those who implement and participate in projects.

### **The Crisis Scenario:**

This anticipates the need to redirect resources in the event of a humanitarian crisis or a worsening security environment. USAID, in collaboration with the broader United States Government Mission and our partners, will develop a description of "trigger events" that will necessitate a special review of the program and, if appropriate, a revision of the program strategy. The offeror, in coordination with USAID/Sri Lanka, will monitor these indicators. The decision by USAID to trigger a change in scenario will be done in consultation with the United States Mission, including the Ambassador, and others. The

contractor should be prepared to demonstrate to USAID their ability to respond relatively quickly in situations of escalating conflict.

The contractor must establish a budget line item of no more than United States \$ 300,000 as a contract line item to respond to a future crisis. The decision to access funds from this contract line item will require prior written approval of the Cognizant Technical Officer for this award.

## **9. ESTIMATED LEVEL-OF-EFFORT**

The PEACE project will be a three-year effort with options for two one-year extensions.

## **10. AWARD MONITORING PLAN**

As part of its proposal, the offeror must submit an illustrative Award Monitoring Plan (AMP) for USAID's review. Monitoring and evaluation of performance and impact will be an on-going, collaborative process with the participation of the contractor, USAID and other partners. The design and implementation of a comprehensive Award Monitoring Plan (AMP), that includes but will not be limited to, reporting on the Foreign Assistance Coordination and Tracking System (FACTS) indicators, will be an integral part of this contract.

The AMP must be subjected to rigorous data quality analysis and independent measurement of the impact for each specific indicator and client satisfaction. The comprehensive Performance Monitoring Plan (PMP) will be developed and baseline data gathered within 60 days of the signing of the contract. The final PMP will be negotiated with USAID as part of the approval of the first annual implementation plan. Wherever required, the data collected for each indicator must be disaggregated by gender and ethnic group.

The AMP will include but shall not be limited to the following indicators:

### **Financial Sector**

Program Element: Financial Services

Indicators - TBD

### **Private Sector Competitiveness**

Program Element: Private Sector Productivity

Indicator: Number of firms receiving USG assistance to invest in improved technologies

Program Element: Workforce Development

Indicator: Number of people gaining employment or more remunerative employment as a result of participation in USG-funded workforce development programs

Indicator: Number of persons participating in USG-funded workforce development programs

Indicator: Number of workforce development initiatives created through USG assisted public-private partnerships

### **Economic Opportunity**

Program Element: Strengthen Microenterprise Productivity

Indicator: Number of microenterprises participating in USG-assisted value chains

Indicator: Number of microenterprises receiving finance from participating firms in USG-assisted value chains

Indicator: Number of microenterprises receiving business development services in from USG-assisted sources

***For management purposes only the following indicators may also be tracked:***

### **Private Sector Competitiveness**

Program Element: Private Sector Productivity

Indicator: Amount of private financing mobilized with a DCA guarantee

### **Agriculture**

Program Element: Agriculture Sector Productivity

Indicator: Number of agriculture-related firms benefiting directly from USG supported interventions

Program Element: Agriculture Enabling Environment

Indicator: Number of Policy Reforms Analyzed with USG Assistance

The AMP is limited to ten pages and as a minimum must address the following:

- (a) A description of the contractor's established system for monitoring and evaluation of this particular AMP. This refers to:
  - Organization-wide policies and procedures for monitoring and their relation to the AMP;
  - Organizational staffing and their expertise, roles and responsibilities and how these are to be used in this particular AMP, including the role of sub-recipients;
  - Automated and other methods used to gather, store, analyze and report on performance data;
  - Procedures for regular communication with USAID regarding the status of monitoring activities, including early notification of problems, and
  - Means of addressing a discovered lack of progress or success, the procedures for which, should focus on learning from mistakes, analyzing them, and ascertaining the reasons for missteps.
- (b) Information about all activities to be monitored under the AMP. The list of activities should be provided in a logical framework which:



- Links activities to contract results – both those dictated to be USAID in the solicitation and other complementary results contained in the contractor’s approach;
- Describes assumptions being made about the relationship of the activity to the contract result;
- Identified indicators against which progress is being measured;
- Describes methods used for monitoring;
- Provides an illustrative schedule for discrete monitoring activities tied to the overall project work plan, and
- Where appropriate the indicators must disaggregate data on the basis of gender and ethnicity.

## 11. PROJECT STAFFING

Expatriate personnel should have extensive professional work experience in economic growth and preferably in conflict affected countries in South Asia or South East Asia. The offeror shall place a long term Chief of Party and Deputy Chief of Party to oversee and coordinate the offeror’s technical assistance, training and small grants programs in Sri Lanka.

- The Chief of Party** must have at a minimum an undergraduate degree in business, finance or a related field. The proposed candidate must have a minimum of five years experience as Chief of Party for economic growth programs. Knowledge of programming in conflict affected countries is essential. Knowledge and experience of program design and implementation for field based programs is an advantage.
- The Deputy Chief of Party** must have at a minimum an undergraduate degree in business, finance or a related field. The proposed candidate must have a minimum of ten years experience with implementing peace building or conflict response programs, with a minimum of three years experience as a Deputy Chief of Party of a program in a conflict affected country. Experience in the management of field based programs is essential.

All other positions are expected to be filled by host country personnel (Sri Lankan citizens). In all cases, fluency in Sinhala or Tamil is required and fluency in both is advantageous. Credit will be given to proposed candidates who are bilingual in the two national languages.

## 12.